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How has the Make in India Policy affected India's Economic Growth over the past 10 years?

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ABSTRACT

Since its implementation in 2014, the Make in India program has had a profound impact on India's economy, leading to record-breaking figures in various economic indicators. However, as with any nationwide program, there are industries that have not reaped the intended benefits. This research article examines both the positive and negative impacts of the Make in India program to provide a comprehensive understanding of its overall effect. By analyzing factors such as foreign direct investment (FDI), GDP growth rate, and unemployment rate, the study demonstrates the significant economic advantages derived from the program. Nevertheless, the research also acknowledges the negative consequences, such as the depletion of arable land and increased pollution levels. The article aims to evaluate whether the economic benefits outweigh the environmental damages caused by the program, offering insights into the program's efficacy and potential areas for improvement.

KEYWORDS: Make in India, economic growth, positive impacts, negative impacts, foreign direct investment, GDP growth rate, unemployment rate, arable land, pollution levels.

INTRODUCTION

Foreign Direct Investment (FDI) in India stood at $83.75 billion in 2021-2022 (PIB, 2022), the highest it has ever been, with experts crediting the Make in India policy for this growth in FDI. With the recent wave of globalization over the past decade, large-economy countries have placed increasing importance on their manufacturing sector to contribute to a bigger portion of the national GDP. Following suit, India is also working towards increasing the contributions of the manufacturing sector to their GDP and implementing the "Make in India" program as a step towards doing so. To explore the effectiveness of the Make in India program in helping the country's economy, this paper will be answering the question "How has the Indian government's Make in India policy affected the economic growth of the country over the past 10 years?". Based on analysis and evaluation of the impact of the program, the imposition of the economic policies under the "Make in India" program has boosted India's economic growth by encouraging start-ups and creating an attractive environment for multinational companies to manufacture in India. The implementation of this program has seen clear growth in the levels of contribution by the manufacturing sector of the country; however, it has been observed that the agricultural industry has been neglected in the process.

Literature Review

The study conducted by Dr. S. Senthilraja and S. Stanislaus (2019) titled "Impact of Make in India on Indian Economy" primarily focuses on the positive aspects of the Make in India program. The paper provides a comprehensive explanation of the program, emphasizing its impact on the Indian economy and industry-specific effects resulting from its implementation. Given the program's economic focus, the impact on the Indian economy has predominantly been positive. Consequently, this paper extensively discusses the economic implications and is inclined towards highlighting the benefits of the program. However, it is important to note that most of the information presented, such as the projected contributions by the 25 sectors under the program, relies on forecasts rather than concrete data from the Indian economy. While this paper contributes to understanding the program and can aid in writing an analysis, it should be considered alongside other sources to present a well-rounded evaluation.

On the other hand, "The impact of 'Make in India' on the Indian Economy" by Dr. Richa Srivastava (2019) offers a more balanced perspective by dedicating a smaller portion of the paper to describing the program and focusing more on its impact. This paper takes a neutral standpoint, highlighting both the benefits and drawbacks of the program. It provides detailed information on the macroeconomic effects, such as the unemployment rate, overall country efficiency, and the ecosystem created for local startups. With its comprehensive coverage of the impact of the program on India, this paper serves as a valuable resource for analyzing and evaluating the Make in India policy.

Overall, by examining multiple secondary sources that provide diverse viewpoints, a comprehensive understanding of the Make in India program's effects on India's economic growth over the past decade can be achieved.

Background

The Make in India policy was initiated by Indian Prime Minister Narendra Modi on September 25, 2014, with the objective of positioning India as a manufacturing, research, and innovation leader and a crucial player in the global supply chain. One of the key aims of this program was to instill confidence in India's manufacturing capabilities among both domestic and international investors, thereby increasing levels of Foreign Direct Investment (FDI). The central strategy employed to achieve the policy's goals was the facilitation of business operations in India, thereby incentivizing foreign companies to establish manufacturing units in the country and promoting the growth of local startups. This policy was imperative to revitalize the GDP growth rate, which had slowed to around 5% in 2013 and 2014, a decline from the average growth rate of 7.7% experienced between 2000 and 2011 (IBEF, 2018). Concurrently, the country faced a severe job scarcity that threatened its economic well-being, particularly as the Indian population grew exponentially. While an average of 5 million new jobs were created annually in India, a staggering 12 million individuals were entering the workforce.

Primarily, the implementation of this policy represents a concerted effort to combat poverty and aims to divert the burgeoning workforce away from the agricultural sector, which the government perceives as an unsustainable source of employment. The policy rests on four pillars: new processes, new infrastructure, new sectors, and a new mindset. Firstly, Make in India acknowledges that the ease of doing business is the most critical factor in promoting entrepreneurship, thus striving to streamline business registration and established procedures. Secondly, the policy entails the development of new infrastructure throughout the country, encompassing the establishment of industrial corridors, the construction of smart cities, and the enhancement of "world-class" infrastructure. Furthermore, innovation and research activities will receive support through expedited registration processes and improved infrastructure for Intellectual Property Rights (IPR) registration. Thirdly, the government has identified 25 sectors in the country that will benefit from various policies, including permissions for 100% FDI and the removal of restrictions.

These sectors are

1. Automobile
2. Automobile Components
3. Aviation
4. Biotechnology
5. Chemicals
6. Construction
7. Defence Manufacturing
8. Electrical Machinery
9. Electronic Systems
10. Food Processing
11. IT & BPM
12. Leather
13. Media & Entertainment
14. Oil & Gas
15. Pharmaceuticals
16. Ports & Shipping
17. Railways
18. Renewable Energy
19. Roads & Highways
20. Space

21. Textile & Garments
22. Thermal Power
23. Tourism & Hospitality, and
24. Wellness

Lastly, the government has embraced a new mindset of active involvement in economic development and fostering the growth of the corporate sector. According to government projections, the implementation of this policy will propel India's manufacturing sector to achieve a value of $1 trillion by 2025, contributing approximately 25% to the country's GDP (Senthilraja & Stanislaus, 2019, pp. 442-448). Simultaneously, it is estimated that the manufacturing sector will generate an additional 100 million jobs in India by 2025 (Senthilraja & Stanislaus, 2019, pp. 442-448).

Results

This policy has had a significant impact on the Indian economy and continues to shape its trajectory. With a renewed focus on improving the ease of doing business, India's ranking in the World Bank's Ease of Doing Business Index experienced a remarkable improvement, rising from 142 in 2014 to 100 in 2017. This rise in rank instilled confidence in foreign investors, leading to a surge in foreign direct investment (FDI). In the fiscal year 2015-2016, FDI inflows into the country surpassed $50 billion for the first time, reaching a record figure of $60 billion in 2016-2017 (Srivastava, 2019, pp. 429-432). Consequently, the total FDI inflow from April 2014 to March 2017 accounted for approximately 33% of the total FDI received by India since April 2000. This brought the cumulative FDI inflow from April 2000 to March 2018 to an impressive $546.45 billion (Srivastava, 2019, pp. 429-432). This surge in FDI propelled India to secure the top rank as the "world's most attractive destination for greenfield FDI." Furthermore, significant progress has been made in enhancing the country's infrastructure. Since the program's implementation, five industrial corridors have been fully developed, and as of September 2018, 21 new nodal industrial cities are in the development process. In line with the objective of bolstering the country's infrastructure, the introduction of the Holistic National Intellectual Property Rights policy in 2016 aimed to foster creativity and innovation, resulting in a substantial increase in inventive activities. In fiscal year 2022, patent filings in India exhibited the highest year-over-year average growth rate in a decade at 13.6%. For instance, from April to October 2017 alone, there were 45,449 patent filings and 15,267 copyright filings (IBEF, 2018).

However, it is important to note that this policy has had unintended negative consequences for the agricultural industry in India. The sector has experienced neglect, leading to a loss of arable land and unfavorable climate conditions, resulting in a decline in crop yields. Additionally, the increased production driven by this policy has led to overexploitation and depletion of various natural resources. Moreover, the expansion of production has created a competitive landscape where local companies are overshadowed by multinational foreign companies that have established a presence in the country. As a result, small start-ups struggle to compete with the brand value and market reach of these foreign entities, leading to a loss of customers.

Discussion

hen examining the impact of the Make in India program on the Indian economy, it becomes evident that it has played a significant role in fostering economic growth. One of the notable effects of the implemented policies is the improved ranking for ease of doing business, which has facilitated the establishment of local startups and contributed to the country's GDP. Moreover, this policy has attracted a substantial inflow of Foreign Direct Investment (FDI), further boosting economic growth. These factors have propelled India from the 11th-largest GDP in the world in 2013 to its current position as the 5th largest (PIB, 2022). India has also experienced one of the fastest-growing GDPs, largely attributed to the increasing contributions of its manufacturing sector.

Another crucial outcome of the Make in India program has been the creation of numerous job opportunities, resulting in a declining annual unemployment rate until 2019, despite the continuous population growth. Although the COVID-19 pandemic caused a temporary increase in the unemployment rate in 2020, it has already started to decrease by 2% from its peak. This reduction in unemployment not only enhances India's efficiency but also allows its sizable working population to contribute to the country's economic growth and GDP.

Despite the undeniable economic benefits of the program, it has also brought about certain repercussions, particularly in the agricultural sector and for local startups. Firstly, the establishment of large manufacturing factories across the country has led to a decline in arable land availability. As of 2023, India's arable land has decreased to 50.4% from approximately 61% in August 2016 (BusinessAlligators, 2016). This decline can be attributed to the allocation of land for manufacturing purposes, which would otherwise have been used for agricultural activities. Additionally, the increasing number of factories has contributed to a rise in pollution levels, with the Pollution Index increasing from 76.5 in 2016 to approximately 90 as of 2022.

Secondly, the entry of foreign brands and the establishment of manufacturing facilities by multinational companies in India have posed challenges for local companies. These smaller enterprises struggle to compete with the brand recognition and cost advantages derived from economies of scale enjoyed by foreign companies. Consequently, many local startups have been compelled to cease operations, discouraging entrepreneurship within India. Encouraging indigenous entrepreneurship could potentially make a greater contribution to the country's GDP than relying solely on consumer purchases from foreign companies operating in India.

Lastly, the Make in India program has had political ramifications, particularly in relation to India's strained relations with China. As India emerges as a manufacturing competitor to China, given its similar labor costs, tensions between the two countries have escalated. India's ambitions to become a prominent manufacturing hub have further strained Indo-China relations.

Conclusion

The Make in India program has greatly contributed to the growth of the Indian economy and witnessed substantial expansions in the country's manufacturing sector. The policy changes implemented under this program have successfully attracted foreign investors, resulting in increased investments in India. Renowned companies such as Apple and Foxconn have established manufacturing operations in the country. However, it is important to acknowledge that this program has also had adverse effects on India's agricultural sector and has caused environmental damage that could detrimentally impact the quality of life.

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